TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 2441 - HB 2582

February 29, 2012

SUMMARY OF BILL: Creates the Tennessee New Entrepreneur Tax Credit Act, authorizing a cumulative amount of refundable franchise and excise tax credits up to $2,000,000 per year, plus any tentative tax credits that were not granted by the end of the preceding year, beginning with tax year 2013, and running through tax year 2022, for qualified taxpayers who are actively engaged in the operation of a microbusiness in this state, or who will establish a microbusiness in this state within the current or subsequent tax year. Defines multiple terms related to the Act, including microbusiness. Requires microbusiness taxpayers seeking tax credits to file an application with the Department of Revenue (DOR). Authorizes DOR to convene an advisory committee with expertise in small business to evaluate applications and advise DOR in authorizing tax credits. Establishes qualifying criteria for taxpayers to become eligible for tax credits. Tax credit applications shall be considered in the order in which they are received. Caps the amount of total lifetime tax credits claimed by any one taxpayer to $10,000. Requires DOR to submit an annual report concerning the Act to the finance committees of the Senate and House of Representatives by July 1 of each year.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - $2,000,000/Each Year FY13-14 through FY22-23

Increase State Expenditures – $321,500/FY12-13
$295,100/FY13-14 and Subsequent Years

Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to an increased business presence in Tennessee prompted by passage of this proposed legislation. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- Given the cumulative amount of tax credits authorized by the bill is $2,000,000 per year, and further given that such tax credits will be authorized for a ten-year period (for tax years 2013 through 2022), the recurring decrease in state revenue is estimated to be $2,000,000 per year.

- One hundred percent of franchise and excise taxpayers will settle 2013 tax returns no later than June 30, 2014. As a result, the first-year revenue impact will occur in FY13-14. This tax return filing pattern is assumed to remain constant into perpetuity. Therefore, the recurring decrease in state revenue for each fiscal year (FY13-14 through FY22-23) will be $2,000,000.
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. Increases in revenue may occur from incremental sales tax revenue, incremental business tax revenue, and incremental franchise and excise tax revenue, if the total number of business taxpayers increase as a result of this bill. Increases in expenditures may occur if the demand for governmental services and infrastructure increase as a result of an increased business presence in the state. Due to multiple unknown factors such as the extent and timing of any additional business presence, the extent and timing of any incremental revenue, and the extent and timing of any increased demand for governmental services, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.
- Any increase in state expenditures for DOR to develop an application, and for preparing an annual report for the General Assembly, is considered not significant.
- Any costs associated with an advisory committee created for the purpose of advising DOR is considered to be not significant because any such committee will consist of members from private-sector businesses with expertise in small business development, lending, and community development.
- DOR will require five additional positions beginning in FY12-13 to begin development for and administer of the proposed tax credit program. The recurring increase in state expenditures is estimated to be $295,100 ($183,708 salaries; $66,888 benefits; $44,504 other). One-time state expenditures associated with the positions is estimated to be $26,400 (computers, software, furniture, etc.).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

/rnc